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C O N F I D E N T I A L SECTION 01 OF 03 PRISTINA 000063

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KV, YI

SUBJECT: KOSOVO PREPARES FOR POST-STATUS SERBIAN EMBARGO

REF: 07 PRISTINA 810

Classified By: COM TINA KAIDANOW FOR REASONS 1.4 (B) AND (D)

11. (C) SUMMARY: Kosovo is preparing for the economic consequences of an independence declaration, including the likelihood that Serbia will close the border and implement an economic embargo. Government officials and local businesses are actively engaging their colleagues and international counterparts to coordinate response measures and action plans, covering a variety of post-status scenarios. Planning is as developed as creation of a cross-border customs operational framework to handle increased commercial traffic, and as basic as securing commitments for post-status assistance between businesses. Businesses have been proactive, meeting with the Minister of Finance and Economy to outline their concerns and actively seeking out substitute suppliers to keep Kosovo stores stocked. Government officials are reassuring the public that with the assistance of the international community, Kosovo is prepared for the consequences of an embargo. END SUMMARY

Customs Preparations Underway

12. (C) Naim Huruglica, Director General of the Kosovo Customs Service, anticipates a significant increase in commercial traffic at Kosovo's non-Serbian border crossings after independence is declared, regardless of whether an embargo is imposed. Huruglica expects a generally negative Serbian reaction to independence, which may incline Serbian businesses to stop direct trade with Kosovo-based businesses even without prompting from the government during the initial six to 12 months after independence. Customs plans to send additional officers to the Macedonian and Montenegrin border crossings to accommodate moderate increases in commercial traffic.

13. (C) To address the possibility that Serbia may close the border completely, Kosovo customs has been working closely with its counterparts in Macedonia, Albania and Montenegro. If an embargo is implemented, Kosovo expects 60 percent or more of commercial traffic normally entering through the Administrative Boundary Line (ABL) with Serbia to be re-routed to the main Macedonian crossing, Hani i

Elezit/General Jankovic. Kosovo and Macedonia customs are currently working out changes to the operational structure at this checkpoint based on the "seaport terminal" model. The "seaports", one on either side of the border, would be free zones with police controlling entry and exit from the terminal areas per normal immigration procedures. After entering the "seaport", trucks would be parked in the terminals while the drivers process paperwork and the goods are inspected. Each terminal would be able to accommodate 250 parked trucks and be open for 24-hour clearance to keep commercial traffic moving through the border. If the "seaport" terminals are unable to accommodate all commercial traffic under the embargo, Huruglica says the Globocica/Jazince crossing could be opened to commercial traffic, although he noted it lacks the appropriate infrastructure.

14. (C) The other 30 percent or more of goods that would normally pass through the ABL with Serbia is expected to be re-routed through the Kulla crossing with Montenegro. In addition to sending additional officers to the Kulla checkpoint, Huruglica anticipates increasing patrols along the Montenegrin border in an attempt to hinder an expected increase in smuggling. Cooperation with Albanian customs is nearly seamless. Commissar Petrit Bushi from the Albanian Liaison Office in Pristina told USOP that Albania and Kosovo customs already operate synchronized border patrols, and they meet at least eight times a month to discuss operational issues. The Albanian crossing Vermica/Morina includes a 5,000-square meter processing terminal and is well-equipped for any increase in cargo traffic. A smaller crossing primarily used for passenger traffic, Qafa Morinas, could also accommodate commercial vehicles if needed. Huruglica

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noted that while cooperation with Serbian customs has always been good, Kosovo customs fully expects its Serbian counterparts to cease collaboration as soon as independence is declared.

Local Businesses Establishing Alternate Supply Lines

15. (C) In order to avoid product shortages, Kosovo's largest wholesaler and distributor, the Elkos Group, has already taken preventive measures in anticipation of an embargo. The Group operates seven distribution centers and several large retail outlets throughout Kosovo. The Elkos Group President, Ramiz Kelmendi, told USOP that the company is keeping 30 days worth of stock on hand to ensure product stability and prevent price increases for customers. The Elkos Group purchases products from a variety of sources including Serbian producers. To keep these business relationships active, Kelmendi has established branch offices in Montenegro and Macedonia, and he has agreed with his Serbian suppliers to operate through his Montenegrin office if an embargo is implemented. Kelmendi plans to route goods produced by European firms within Serbia to the company's Macedonia branch. According to Kelmendi, the Elkos Group will absorb any and all excess transportation costs with these arrangements to avoid price increases. He also believes he will have the full support of Serbian businesses to overcome the embargo. Despite these arrangements, Kelmendi is concerned about serious delays at Kosovo border crossings and has advocated for increased customs staff at the Macedonia and Montenegro checkpoints.

16. (C) The Elkos Group would be able to secure replacement products for what it currently imports from Serbia, but only with advance notice. Kelmendi is also worried local businesses selling Serbian products will face a backlash from consumers, which could also affect products manufactured in Serbia by third-country companies. Likewise, the Elkos Group's Serbian suppliers expressed apprehension that the Serbian government might impose penalties on businesses continuing to trade with Kosovo, even through third-country arrangements.

¶7. (C) Florim Kamberaj, co-owner and supply director for the Arge-Iko meat processing company in Prizren, told USOP that his firm has also established substitute supply networks in anticipation of an embargo. Two critical inputs for his production are sourced from Serbian suppliers, but one company has already opened a branch office in Macedonia in order to supply Kosovo companies such as Arge-Iko. Kamberaj is in the process of locating alternate suppliers for other inputs, and has secured partial sourcing from a company in Brazil.

Regional Outreach from Chamber of Commerce

¶8. (C) The Kosovo Chamber of Commerce (KCC) has actively encouraged members to seek non-Serbian business relationships in advance of status and a possible embargo. KCC head Besim Beqaj informed USOP that he has received strong commitments of support from the Macedonian and Albanian Chambers of Commerce if a blockade is implemented, and he has arranged for members from these Chambers to come to Kosovo and pitch business opportunities. According to Beqaj, Kosovo has been so reliant on smuggling and pre-existing relationships with Serbian businesses that the embargo would force more Kosovo companies to establish new business relationships and provide a more formalized structure to Kosovo's economy.

¶9. (C) The real challenge for Kosovo businesses facing a blockade, Beqaj elaborated, will be securing outlets for exports and maintaining reliable supply routes. It is more difficult for smaller businesses to absorb the additional transportation costs of re-routing goods through non-Serbian crossings. However, he did not see this being as serious a problem for imports. Many Kosovo businesses have already established alternate delivery routes to avoid higher Serbian taxes on transit goods by trucking products through Croatia

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and Montenegro instead. He also noted that fuel is currently brought to Kosovo via truck or train from Greece and Bulgaria. According to Beqaj, a key question will be whether Montenegro will continue to allow goods to transit through to Kosovo, either from the port at Bar or re-routed from the Serbian border. On the Macedonian side, Beqaj said the Kosovo and Macedonian Chambers of Commerce jointly asked the Macedonian government to open the Globocica/Janzince border crossing to commercial traffic using existing infrastructure. Beqaj pointed out that goods could be brought to an inland processing point for customs clearance to facilitate vehicle flow at the border.

Government Meets with Businesses

¶10. (C) The Kosovo government has been delivering reassuring messages to the public about the possible embargo, emphasizing that the government is prepared and working closely with the international community. Government officials have also been in touch with neighboring governments and has received a commitment to assist in "any way possible" from Albania. Likewise, Macedonia has promised embargo assistance, including facilitating traffic flow through the borders. Recently, the Kosovo Minister of Finance and Economy Ahmet Shala called a meeting with representatives of the KCC, the American Chamber of Commerce and the Kosovo Business Alliance to discuss the potential blockade and gauge the concerns of the business community. The head of the American Chamber of Commerce, Mimoza Kusari-Lila, suggested the government establish reserve stocks, particularly to assist disadvantaged members of society, and for the government to be more careful with public expenditures. Like the KCC's Beqaj, Kusari-Lila has also reached out to her American Chamber counterparts in neighboring countries about closer post-status business cooperation and has received positive responses.

¶11. (C) COMMENT: At the end of the day, many local

interlocutors have indicated they do not take threats of an embargo too seriously. The KCC,s Beqaj considers the embargo warning a cosmetic measure because of the potential damage Serbia would cause to its own businesses and regional relationships. Likewise, Minister Shala has professed that he does not believe the embargo will happen, or, if it does, that it would be vigorously enforced, as it would be counterproductive for Serbia. Nevertheless, both government officials and businesses remain aware of the consequences a blockade could have on Kosovo,s economy and are taking sound pre-emptive measures. USOP continues to support and encourage Kosovo,s preparation for various post-status scenarios. END COMMENT.

KAIDANOW